KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

Division of Retirement and Benefits
State of Alaska Public Employees' Retirement System:

We have audited the accompanying statements of plan net assets of the State of Alaska Public Employees' Retirement System (Plan), a Component Unit of the State of Alaska, as of June 30, 2006 and 2005, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the State of Alaska Public Employees' Retirement System, a Component Unit of the State of Alaska, as of June 30, 2006 and 2005, and the changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

As explained in note 2, the financial statements included investments valued at approximately $1,816,443,000 (19% of net assets held in trust) whose carrying values have been estimated by management in the absences of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

The accompanying required supplementary information of management's discussion and analysis on pages 13 to 19 and schedules of funding progress and employer contributions on pages 48 to 54 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Schedules 1 and 2 on pages 55 and 56 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of the Plan's management, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section on pages 1 through 10 and investment, actuarial and statistical data on pages 57 through 108 are presented for the purpose of additional analysis and are not a required part of the basic financial statements to the State of Alaska Public Employees' Retirement System (Plan), a Component Unit of the State of Alaska. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

KPMG LLP

October 27, 2006

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Management's Discussion and Analysis

June 30, 2006 and 2005

This section presents management's discussion and analysis (MD&A) of the Public Employees' Retirement System's (Plan) financial position and performance for the years ended June 30, 2006 and 2005. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements, notes to the financial statements, required supplementary and additional information to better understand the financial condition and performance of the Plan during the fiscal years ended June 30, 2006 and 2005. Information for fiscal year 2004 is presented for comparative purposes.

Financial Highlights

The Plan's total assets exceeded its total liabilities by $9,379,471,000 and $8,590,752,000 at the close of fiscal years 2006 and 2005, respectively.

The Plan's "Net assets held in trust for pension and postemployment healthcare benefits" as of June 30, 2006 and 2005 increased by $788,719,000 or 9.2% and $413,446,000 or 5.1% over the closing balances of those assets in fiscal years 2005 and 2004, respectively.

Contributions received totaled $391,915,000 and $292,845,000 during fiscal years 2006 and 2005; an increase of $99,070,000 and $68,706,000 or 33.8% and 30.7% from fiscal years 2005 and 2004, respectively.

Net investment income increased from $692,303,000 in 2005 to $974,006,000 in 2006 and decreased from $1,064,605,000 in 2004 to $692,303,000 in 2005; reflecting an increase of 40.7% and a decrease of 35.0% from fiscal years 2005 and 2004, respectively.

Pension benefit and postemployment healthcare payments totaled $592,285,000 and $550,112,000 during fiscal years 2006 and 2005 reflecting an increase of $42,173,000 and $53,362,000 or 7.7% and 10.7% from fiscal years 2005 and 2004, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements. The Plan's basic financial statements are comprised of three components: (1) statement of plan net assets, (2) statement of changes in plan net assets, and (3) notes to financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Statement of Plan Net Assets – This statement presents information regarding the Plan's assets, liabilities, and net assets. Net assets represent the total amount of assets less the total amount of liabilities.

Statement of Changes in Plan Net Assets – This statement presents how the Plan's net assets changed during the fiscal year as a result of contributions, investment income, operating deductions, and transfers.

The above statements represent resources available for investment and payment of benefits as of the fiscal year-end and the sources and uses of those funds during the fiscal year.

Notes to Financial Statements – The notes to the financial statements are an integral part of the financial statements and provide additional detailed information and schedules to better understand the Plan's financial statements.

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Required Supplementary Information – The required supplementary information consists of three schedules and related notes concerning the funded status of the Plan and actuarial assumptions and methods used in the actuarial valuation.

Other Supplementary Schedules – Other supplementary schedules include detailed information on administrative and investment deductions incurred by the Plan and payments to consultants for professional services.

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Condensed Financial Information

NET ASSETS
(Dollars in thousands)

Description	2006	2005	Increase/(Decrease) Amount	Increase/(Decrease) Percentage	2004
Assets:					
Cash, cash equivalents and receivables	$ 15,169	12,275	2,894	23.6%	9,702
Securities lending collateral	929,519	659,801	269,718	40.9	993,268
Investments, at fair value	9,372,102	8,585,876	786,226	9.2	8,174,863
Other assets	4	12	(8)	(66.7)	126
Total assets	10,316,794	9,257,964	1,058,830	11.4	9,177,959
Liabilities:					
Accrued expenses	7,329	6,541	788	12.0	7,281
Securities lending collateral payable	929,519	659,801	269,718	40.9	993,268
Other liabilities	475	870	(395)	(45.4)	104
Total liabilities	937,323	667,212	270,111	40.5	1,000,653
Net Assets	**$ 9,379,471**	**8,590,752**	**788,719**	**9.2%**	**8,177,306**

CHANGES IN NET ASSETS
(Dollars in thousands)

Description	2006	2005	Increase/(Decrease) Amount	Increase/(Decrease) Percentage	2004
Net assets, beginning of year	$ 8,590,752	8,177,306	413,446	5.1%	7,391,455
Additions:					
Contributions	391,915	292,845	99,070	33.8	224,139
Net investment income	974,006	692,303	281,703	40.7	1,064,605
Other additions	312	3	309	10,300.0	152
Transfer from Retiree Health Fund	34,635	-	34,635	100.0	13,724
Total additions	1,400,868	985,151	415,717	42.2	1,302,620
Deductions:					
Benefits	592,285	550,112	42,173	7.7	496,750
Refunds	14,063	16,587	(2,524)	(15.2)	14,723
Administrative	5,801	5,006	795	15.9	5,296
Total deductions	612,149	571,705	40,444	7.1	516,769
Increase in net Assets	788,719	413,446	375,273	90.8	785,851
Net assets, end of year	**$ 9,379,471**	**8,590,752**	**788,719**	**9.2%**	**8,177,306**

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Management's Discussion and Analysis

Financial Analysis of the Plan

The Statement of Plan Net Assets as of June 30, 2006 and 2005 showed total assets exceeding total liabilities by $9,379,471,000 and $8,590,752,000. These amounts represent the Plan "Net assets held in trust for pension and postemployment healthcare benefits". The entire amount is available to cover the Plan's obligations to pay pension and postemployment healthcare benefits to its members and their beneficiaries.

These amounts also represent an increase in "Net assets held in trust for pension and postemployment healthcare benefits" of $788,719,000 or 9.2% and $413,446,000 or 5.1% from fiscal years 2005 and 2004, respectively. Over the long-term, plan member and employer contributions, as well as investment income earned, are expected to sufficiently fund the pension benefit and postemployment healthcare costs of the Plan.

The investment of pension funds is a long–term undertaking. On an annual basis, the Alaska Retirement Management Board (ARMB) reviews and adopts an asset allocation strategy to ensure the asset mix will remain at an optimal risk/return level given the Plan's constraints and objectives. During fiscal year 2006, the ARMB adopted an asset allocation that includes 36% in domestic equities, 15% in international equities, 24% in domestic fixed-income, 2% in international fixed-income, 6% in private equity, 2% in high yield, 3% in absolute return, 3% in other investments, and 9% in real estate. This asset allocation is expected to provide a five-year median return of 7.83%.

For fiscal years 2006 and 2005, the Plan's investments generated an 11.74% and an 8.95% rate of return, respectively. The Plan's annualized rate of return was 11.90% over the last three years and 6.54% over the last five years.

Actuarial Valuations and Funding Progress

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to members. The employer contribution requirements are actuarially determined as a percentage of eligible salaries, and reflect the cost of benefits accruing in fiscal year 2006 and a fixed amortization of the unfunded accrued liability. The amortization period is recommended by the Actuary and adopted by the ARMB. Employer contribution levels are recommended by the Actuary and adopted by the ARMB annually. Increasing healthcare costs and contribution shortfalls continue to impact the Plan's funding ratio. The ratio of assets to liabilities was 65.7%, at June 30, 2005 (the date of the Plan's latest actuarial valuation report). The goal for the Plan is to make progress toward achieving the funding objectives of the Plan.

A summary of the actuarial assumptions and methods is presented in the Notes to Required Supplementary Information. The assumptions, when applied in combination, fairly represent past and anticipated future experience of the Plan.

For fiscal year 2007, the employer consolidated normal cost rate increased from 13.24% to 13.32%, the average past service rate increased from 12.39% to 14.87%, thus producing a total fiscal year 2007

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average annual required contribution rate for all employers in the Plan of 28.19%. The ARMB adopted an average employer contribution rate of 21.77%.

	Valuation Year (Dollars in thousands) 2005	2004
Valuation Assets	$ 8,442,919	8,030,414
Actuarial Liabilities (total benefits)	12,844,841	11,443,916
Funding ratio	65.7%	70.2%

Contributions, Investment Income and Transfer

The additions required to fund retirement benefits are accumulated through a combination of employer and plan member contributions, investment income and a transfer.

Additions
(Dollars in thousands)

	2006	2005	Increase/(Decrease) Amount	Percent	2004
Plan member contributions	$ 119,566	114,640	4,926	4.3%	118,554
Employer contributions	253,922	178,205	75,717	42.5	105,585
State of Alaska	18,427	-	18,427	100.0	-
Net investment income	974,006	692,303	281,703	40.7	1,064,605
Other additions	312	3	309	10,300.0	152
Transfer from Retiree Health Fund	34,635	-	34,635	100.0	13,724
Total	$1,400,868	985,151	415,717	42.2%	1,302,620

Employer contributions increased from $178,205,000 in fiscal year 2005 to $253,922,000 in fiscal year 2006 an increase of $75,717,000 or 42.5%. Employer contributions increased from $105,585,000 in fiscal year 2004 to $178,205,000 in fiscal year 2005, an increase of $72,620,000 or 68.8%. Increases experienced in fiscal year 2006 are largely due to the contribution shortfall related to contributions made in fiscal year 2005. Increases experienced in fiscal year 2005 are largely due to changes in actuarial assumptions and methods implemented in the valuation for the period ending June 30, 2002 (the valuation year used to set fiscal year 2005 employer contribution rates).

Net investment income in fiscal year 2006 increased by $281,703,000 or 40.7% from amounts recorded in fiscal year 2005. Net investment income in fiscal year 2005 decreased by $372,302,000 or 35.0% from amounts recorded in fiscal year 2004. The Plan's total returns were 11.74%, 8.95% and 15.08% for the years ending 2006, 2005 and 2004, respectively. Changes in both years are due to the performance of the equity markets. The Domestic Equity Pool, International Equity Pool, Real Estate Pool, Private Equity Pool and the Other Investments Pool each had higher returns in 2006 when compared to 2005. The Domestic Equity Pool realized a return of 9.2% in 2006 compared to 4.5% in 2005. The International Equity Pool realized a return of 28.7% in 2006 compared to 13.4% in 2005. The Real Estate Pool realized a return of 18.6% in 2006 compared to 17.4% in 2005. The Private Equity Pool realized a return of 25.9% in 2006 compared to 18.1% in 2005. The Other Investments Pool realized a return of 8.6% in 2006 compared to 5.5% in 2005. More than seventy percent of invested assets were invested in these pools.

Over the long-term, investment income has been a major component of additions to plan assets. During fiscal year 2006, the Plan continued to record significant rates of return on investments. The rate of return used in the actuarial valuation report to determine liabilities of the Plan was 8.25%. The actual rate of return exceeded the actuarial rate of return for the third consecutive year.

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During 2006 and 2004, a review was conducted of all medical reserve amounts in the Retiree Health Fund. The result was excess reserve balances over those deemed necessary for the continued operation of the Retiree Health Fund. The excess amount was allocated to plans participating in the Retiree Health Fund. In fiscal year 2006, the Plan recognized a transfer of $34,635,000 from the Retiree Health Fund. No transfer occurred in 2005 and a $13,724,000 transfer occurred in 2004.

Benefits and Other Deductions

The primary deduction of the Plan is the payment of pension benefits. These benefit payments, together with postemployment healthcare premiums paid, lump-sum refunds made to former plan members and the cost of administering the Plan comprise the costs of operations.

Deductions
(Dollars in thousands)

	2006	2005	Increase/(Decrease) Amount	Increase/(Decrease) Percent	2004
Pension benefits	$ 381,672	357,763	23,909	6.7%	329,390
Healthcare benefits	210,613	192,349	18,264	9.5	167,360
Refunds of contributions	14,063	16,587	(2,524)	(15.2)	14,723
Administrative	5,801	5,006	795	15.9	5,296
Total	**$ 612,149**	**571,705**	**40,444**	**7.1%**	**516,769**

Pension benefit payments in 2006 and 2005 increased $23,909,000 and $28,373,000 or 6.7% and 8.6% from fiscal years 2005 and 2004, respectively. The majority of the increase in pension benefits was the result of a continuing increase in the number of retirees as well as a continuing increase in average benefits.

Postemployment healthcare benefits in 2006 and 2005 increased $18,264,000 and $24,989,000 or 9.5% and 14.9% from fiscal years 2005 and 2004, respectively. Healthcare costs continue to rise year over year and this increase is directly related to the number of new retirees in the Plan.

Funding

Retirement benefits are financed by accumulations from employer and plan member contributions and income earned on Plan investments.

- The employer contributions are calculated by the Plan's consulting actuaries and approved by the ARMB annually.
- Plan member contributions are set by Alaska Statute 39.35.160.
- The ARMB works with an external consultant to determine the proper asset allocation strategy.

Legislation

During the fiscal year 2006 legislative session, one law was enacted that affects the Plan:

Senate Bill 46, passed by the first special session of the twenty-fourth Alaska State Legislature, appropriated $18.4 million from the general fund to the Department of Administration to reduce the contributions required from participating political subdivisions as a result of contribution rate increases for the year ended June 30, 2006.

During the fiscal year 2005 legislative session, a law was enacted that closes the PERS defined benefit plan. Senate Bill 141, effective July 1, 2006 closed the PERS defined benefit plan to new members and

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creates a PERS defined contribution plan for members first hired on or after July 1, 2006.

Economic Conditions, Future Contribution Rates, and Status of Unfunded Liability

The financial market environment continues to challenge investors. With the threat of inflation, interest rate increases by the Federal Reserve Bank, and continued turmoil in the Middle East, many forces once again pose challenges to Plan investments. The ARMB continues to diversify the portfolio of the Plan to maintain an optimal risk/return ratio.

The return on Plan investments exceeded its' actuarially assumed return of 8.25% for the third consecutive year. Even with investment returns exceeding the actuarial rate of return, the Plan will continue to see an increase in employer contribution rates due to rising medical costs and the contribution shortfall in fiscal year 2005 and 2006. In addition, employer contribution rates will rise in fiscal year 2008 due to an error discovered when the June 30, 2004, actuarial valuation was replicated in 2006. The replication of the June 30, 2004, actuarial valuation discovered an error in the development of liabilities associated with postemployment healthcare benefits.

The consulting actuary recommended an increase from the average employer contribution rate of 25.63% in fiscal year 2006 to 28.19% in fiscal year 2007. The ARMB adopted an average employer contribution rate of 21.77% for fiscal year 2007, up 5 points from the fiscal year 2006 board adopted employer contribution rate of 16.77%. The reason for the five point change in the average employer contribution rate is the Plan's regulation, 2 AAC 35.900 Maximum Employer Contribution Rate Change, which states "The maximum change in the contribution rate from one year to the next shall be no more than five percentage points, as actuarially calculated, whether the change is an increase or a decrease." Despite a modest 2.56 point change in the calculated average employer contribution rates from fiscal year 2006 to 2007 prescribed by the Plan's consulting actuary, regulations prohibit more than a five point change from year to year, so the Board was limited in its capacity to increase the employer contribution rates. This regulation was put in place to reduce the volatility that employer contribution rates could have in market conditions similar to those in 2001 and 2002, as well as conditions that are beyond the control of the Plan, such as rising healthcare costs. Regulation 2 AAC 35.900 was repealed effective July 20, 2006.

The June 30, 2005, actuarial valuation for the Plan reported a funding ratio of 65.7% and an unfunded liability of $4.4 billion.

Requests for Information

This financial report is designed to provide a general overview of the Plan's finances for all those with interest in the Plan's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Alaska Public Employees' Retirement System, Division of Retirement & Benefits, Accounting Section, P.O. Box 110203, Juneau, Alaska 99811–0203.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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Statements of Plan Net Assets

June 30, 2006 and 2005
(In thousands)

	2006			2005		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Assets:						
Cash and Cash Equivalents (notes 5 and 6):						
Short-Term Fixed Income Pool	$ 336	224	560	407	247	654
Securities Lending Collateral	557,143	372,376	929,519	410,431	249,370	659,801
Total Cash and Cash Equivalents	557,479	372,600	930,079	410,838	249,617	660,455
Receivables:						
Contributions	8,756	5,853	14,609	7,229	4,392	11,621
Total Receivables	8,756	5,853	14,609	7,229	4,392	11,621
Investments (notes 3, 4, 5 and 7):						
Domestic Equity Pool	3,091,953	487,950	3,579,903	2,828,626	467,654	3,296,280
Domestic Fixed Income Pool	1,214,397	811,660	2,026,057	1,188,353	722,022	1,910,375
International Equity Pool	855,180	571,572	1,426,752	832,084	505,559	1,337,643
Real Estate Pool	563,987	376,949	940,936	514,772	312,766	827,538
International Fixed Income Pool	117,676	78,651	196,327	198,622	120,679	319,301
Private Equity Pool	338,860	226,483	565,343	236,282	143,561	379,843
Emerging Markets Equity Pool	108,084	72,240	180,324	83,402	50,674	134,076
Other Investments Pool	42,577	28,457	71,034	19,758	12,005	31,763
High Yield Pool	87,688	58,608	146,296	86,119	52,325	138,444
Absolute Return Pool	143,332	95,798	239,130	131,012	79,601	210,613
Total Investments	6,563,734	2,808,368	9,372,102	6,119,030	2,466,846	8,585,876
Other:						
Loans and Mortgages, Net of Allowance for Loan Losses of $5 in 2006 and 2005	1	1	2	6	4	10
Other	2	-	2	2	-	2
Total Other	3	1	4	8	4	12
Total Assets	7,129,972	3,186,822	10,316,794	6,537,105	2,720,859	9,257,964
Liabilities:						
Accrued Expenses	4,393	2,936	7,329	4,069	2,472	6,541
Due to State of Alaska General Fund	285	190	475	541	329	870
Securities Lending Collateral Payable (note 5)	557,144	372,375	929,519	410,431	249,370	659,801
Total Liabilities	561,822	375,501	937,323	415,041	252,171	667,212
Commitments and Contingencies (note 7)						
Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits	**$6,568,150**	**2,811,321**	**9,379,471**	**6,122,064**	**2,468,688**	**8,590,752**

(Schedules of funding progress are presented on pages 48 and 49.)

See accompanying notes to financial statements.

STATE OF ALASKA
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Statements of Changes in Plan Net Assets

Years ended June 30, 2006 and 2005
(In thousands)

	2006			2005		
	Pension	Post-employment Healthcare	Total	Pension	Post-employment Healthcare	Total
Additions:						
Contributions:						
Employers	$ 152,198	101,724	253,922	110,853	67,352	178,205
Plan Members	71,666	47,900	119,566	71,312	43,328	114,640
State of Alaska	11,045	7,382	18,427	-	-	-
Total contributions	234,909	157,006	391,915	182,165	110,680	292,845
Investment Income:						
Net Appreciation in Fair Value (note 3)	424,780	283,908	708,688	285,594	173,522	459,116
Interest	72,259	48,296	120,555	68,250	41,468	109,718
Dividends	99,085	66,224	165,309	87,430	53,120	140,550
Net Mortgage Loan Recovery	-	-	-	7	4	11
Total Investment Income	596,124	398,428	994,552	441,281	268,114	709,395
Less Investment Expense	13,510	9,028	22,538	11,588	7,040	18,628
Net Investment Income Before Security Lending Activities	582,614	389,400	972,014	429,693	261,074	690,767
Securities Lending Income (note 5)	20,111	13,441	33,552	9,180	5,577	14,757
Less Securities Lending Expenses (note 5)	18,917	12,643	31,560	8,224	4,997	13,221
Net Income from Securities Lending Activities	1,194	798	1,992	956	580	1,536
Net Investment Income	583,808	390,198	974,006	430,649	261,654	692,303
Other:						
Other	187	125	312	2	1	3
Transfer from Retiree Health Fund (note 6)	20,760	13,875	34,635	-	-	-
Total Additions	839,664	561,204	1,400,868	612,816	372,335	985,151
Deductions:						
Benefits	381,672	210,613	592,285	357,763	192,349	550,112
Refunds of Contributions	8,429	5,634	14,063	10,318	6,269	16,587
Administrative	3,477	2,324	5,801	3,114	1,892	5,006
Total Deductions	393,578	218,571	612,149	371,195	200,510	571,705
Net Increase	446,086	342,633	788,719	241,621	171,825	413,446
Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits:						
Balance, Beginning of Year	6,122,064	2,468,688	8,590,752	5,880,443	2,296,863	8,177,306
Balance, End of Year	**$6,568,150**	**2,811,321**	**9,379,471**	**6,122,064**	**2,468,688**	**8,590,752**

See accompanying notes to financial statements.

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Financial Statements

June 30, 2006 and 2005

(1) Description

The following brief description of the State of Alaska Public Employees' Retirement System (Plan), a Component Unit of the State of Alaska, is provided for general information purposes only. Members should refer to the Plan agreement for more complete information.

General

The Plan is a defined benefit, agent, multiple employer public employee retirement system established and administered by the State of Alaska (State) to provide pension and postemployment healthcare benefits for eligible State and local government employees. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a component unit of the State financial reporting entity and is included in the State's financial reports as a pension trust fund. The State employees who administer the Plan participate in the Plan.

At June 30, the number of participating local government employers and public organizations including the State was:

	2006	2005
State of Alaska	1	1
Municipalities	77	77
School districts	53	53
Other	29	29
	160	**160**

Inclusion in the Plan is a condition of employment for eligible State employees, except as otherwise provided, for judges, elected officers and certain employees of the Alaska Marine Highway System. Any local government in the State may elect to have its permanent general and peace officer and firefighter employees covered by the Plan. At June 30, Plan membership consisted of:

	2006	2005
Retirees and beneficiaries currently receiving benefits	21,852	20,703
Terminated plan members entitled to future benefits	6,102	6,105
	27,954	26,808
Active plan members:		
General	31,865	30,997
Peace officer and firefighter	2,795	2,733
	34,660	33,730
	62,614	**60,538**
Active plan members:		
Vested:		
General	17,336	17,550
Peace officer and firefighter	1,815	1,799
Nonvested:		
General	14,529	13,447
Peace officer and firefighter	980	934
	34,660	**33,730**

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Notes to Financial Statements

June 30, 2006 and 2005

Pension Benefits

Members hired prior to July 1, 1986, with five or more paid-up years of credited service are entitled to monthly pension benefits beginning at normal retirement age, fifty-five, or early retirement age, fifty. For members first hired after June 30, 1986, the normal and early retirement ages are sixty and fifty-five, respectively. Members with thirty or more years of credited service (twenty years for peace officers and firefighters) may retire at any age and receive a normal benefit.

The normal monthly pension benefit is based on years of service and average monthly compensation. For members hired prior to July 1, 1996, and all peace officer and firefighter, the average monthly compensation is based upon the member's three highest, consecutive years' salaries. For all other members hired after June 30, 1996, average monthly compensation is based upon the member's five highest, consecutive years' salaries.

The benefit related to all years of service prior to July 1, 1986, and for years of service through a total of ten years for general members is equal to 2% of the member's average monthly compensation for each year of service. The benefit for each year over ten years of service subsequent to June 30, 1986, is equal to 2-1/4% of the member's average monthly compensation for the second ten years and 2-1/2% for all remaining years of service. For peace officer and firefighters, the benefit for years of service through a total of ten years is equal to 2% of the member's average monthly compensation and 2-1/2% for all remaining years of service.

Minimum benefits for members eligible for retirement are $25 per month for each year of credited service.

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouse consents to another form of benefit or another person is eligible for benefits under a qualified domestic relations order.

The Plan has two types of postretirement pension adjustments (PRPA). The automatic PRPA is issued annually to all eligible benefit recipients, when the cost of living increases in the previous calendar year. The automatic PRPA increase is paid beginning July 1 of each year. The discretionary PRPA may be granted to eligible recipients by the Plan Administrator if the funding ratio of the Plan meets or exceeds one-hundred and five percent. If both an automatic and discretionary PRPA are granted, and a retiree is eligible for both adjustments, the one that provides the retiree the greater increase will be paid.

Postemployment Healthcare Benefits

Major medical benefits are provided to retirees without cost for all members hired before July 1, 1986. Members hired after July 1, 1986 with five years of credited service (or ten years of credited service for those first hired after July 1, 1996) must pay the full monthly premium if they are under age sixty, and receive benefits at no premium cost if they are over age sixty or are receiving disability benefits. Peace officers and firefighters with 25 years of membership service also receive benefits at no premium cost.

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Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), a pension trust fund of the State, was established. The RHF is self-funded and provides major medical coverage to retirees of the Plan. Retirees of three other State administered retirement plans also participate in the RHF. The Plan, along with the other participating plans, retains the risk of loss of allowable claims. The RHF issues a publicly available financial report, which may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

Death Benefits

If an active general Plan member dies from occupational causes, the spouse may receive a monthly pension equal to 40% of the Plan member's salary. If an active peace officer or firefighter Plan member dies from occupational causes, the spouse may receive a monthly pension equal to 50% of the Plan member's salary or 75% of the member's retirement benefit calculated as if the member had survived until normal retirement age, whichever is greater. When death is due to occupational causes and there is no surviving spouse, the Plan member's dependent child(ren) may receive the monthly pension until they are no longer dependents. If the member does not have a spouse or dependent children at the time of death, a lump-sum death benefit is payable to the named beneficiary(ies). The amount of the occupational death pension changes on the date the Plan member's normal retirement would have occurred if the Plan member had lived. The new benefit is based on the Plan member's average monthly compensation at the time of death and the credited service, including service that would have accrued if the Plan member had lived and continued to work until normal retirement. If the death was from nonoccupational causes, and the Plan member was vested, the spouse may receive a monthly 50% joint and survivor option benefit based on the member's credited service and average monthly compensation at the time of death. If the Plan member is not married or vested, a lump-sum death benefit is payable to the named beneficiary(ies).

Disability Benefits

Active Plan members who become permanently disabled due to occupational or nonoccupational causes receive disability benefits until normal retirement age or when the service requirement for normal retirement is met. Although there are no minimum service requirements for Plan members to be eligible for occupational disability, Plan members must be vested to receive nonoccupational disability benefits. The monthly occupational disability benefit is equal to 40% of the Plan member's salary at the time of the disability. The nonoccupational disability benefit is based on the Plan member's service and salary at the time of disability. At normal retirement age, a disabled general Plan member receives normal retirement benefits. A peace officer or firefighter Plan member may elect to receive normal retirement benefits calculated under the occupational disability benefit rules.

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Contributions

Plan Member Contributions

Contribution rates are 7.5% for peace officers and firefighters, 9.6% for some school district employees, and 6.75% for general Plan members, as required by statute. The Plan member contributions are deducted before federal income tax is withheld. Contributions are collected by employers and remitted to the Plan. Plan member contributions earn interest at the rate of 4.5% per annum, compounded semiannually.

Employer Contributions

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percent of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are determined using the projected unit credit actuarial funding method. The Plan uses the level percentage of pay method to amortize the unfunded liability over a twenty-five year fixed period. Regulation 2 AAC 35.900 Maximum Employer Contribution Rate Change, prohibits the ARMB from increasing or decreasing employer contribution rates by more than five percentage points over the rate adopted in the prior year.

Contributions from the State of Alaska

Senate Bill 46, passed by the first special session of the twenty-fourth Alaska State Legislature, appropriated $18.4 million from the general fund to the Department of Administration to reduce the contributions required from participating political subdivisions as a result of contribution rate increases for the year ended June 30, 2006.

Refunds

Plan member contributions may be voluntarily or, under certain circumstances, involuntarily refunded to the member or a garnishing agency sixty days after termination of employment. Voluntary refund rights are forfeited on July 1 following the member's 75th birthday or within fifty years of the member's last termination date. Members who have had contributions refunded forfeit all retirement benefits, including postemployment healthcare benefits. Members are allowed to reinstate refunded service due to involuntary refunds by repaying the total involuntary refunded balance and accrued interest. Members are allowed to reinstate voluntarily refunded service by repaying the voluntarily refunded balance and accrued interest, as long as they re-establish an employee relationship with a participating Plan employer before July 1, 2010. Members who have not re-established an employee relationship with a participating Plan employer by June 30, 2010, will not be eligible to reinstate voluntarily refunded service and will forfeit any claim to Plan membership rights. Balances refunded to members accrue interest at the rate of 7.0% per annum, compounded semiannually.

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Administrative Costs

Administrative costs are financed through investment earnings.

Due to State of Alaska General Fund

Amounts due to the State of Alaska General Fund represent the net difference between amounts paid by the Plan on behalf of others and amounts paid by others on behalf of the Plan.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The Plan's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

GASB Statements No. 25 and No. 26

Government Accounting Standards Board (GASB) Statements No. 25 and No. 26 require that plan net assets be split between pension and postemployment healthcare. To meet these requirements, plan assets, liabilities, additions and deductions not specifically identifiable to either plan are allocated to the pension and postemployment healthcare plans based on their proportionate share of actuarial accrued liabilities.

Investments

Investments are recorded at fair value in accordance with Governmental Accounting Standards Board (GASB) Statement No. 31. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale." Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis at the current fair value. Dividend income on domestic and international equity securities is accrued on the ex-dividend date. Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment deductions consist of those administrative deductions directly related to the Plan's investment operations.

In fiscal year 2005, Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosures* was implemented. GASB Statement No. 40 addresses disclosures on deposits and investments, focusing on common investment risks related to interest rate risk, credit risk, foreign currency risk and concentration of credit risk.

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Valuation

Investments with Readily Determinable Fair Values

Fixed-income securities are valued each business day using prices obtained from a pricing service when such prices are available; otherwise, such securities are valued at the most current sale price or based on a valuation provided by investment managers. Money market funds are valued at amortized cost, which approximates fair value.

Equity securities are valued each business day using prices obtained from a pricing service or prices quoted by one or more independent brokers.

Emerging markets securities are valued on the last business day of each month by the investment managers.

Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value. At June 30, 2006 and 2005, the allowance for loan loss totaled $5,221 and is considered by management to be sufficient to cover any losses to the mortgage loan portfolio.

Investments with Estimated Fair Values

Private equity securities are valued periodically by the general partners. Underlying private equity investments that are listed on a national exchange are valued using quoted market prices. Securities for which there are no market quotations available are initially carried at original cost and subsequently valued at fair value as determined by the general partners. In determining fair value, the financial condition, operating results and projected operating cash flow of the underlying portfolio companies, prices paid in private sales of such securities, the nature and duration of restrictions on disposition of the securities, the expenses and delay that would be involved in registration, the price and extent of public trading in similar securities, the existence of merger proposals or tender offers affecting securities, and reports prepared by analysts are considered as appropriate. Because of the inherent uncertainty of valuations, however, these estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and these differences could be material.

Absolute return investments are carried at fair value as determined by the pro-rata interest in the net assets of the underlying investment funds. These investment funds are valued periodically by the general partners and the managers of the underlying investments. The net asset value represents the amount that would be expected to be received if it were to liquidate its interests subject to liquidity or redemption restrictions. Because of the inherent uncertainty of valuations, however, these estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and these differences could be material.

The energy related investments in the Other Investments Pool consist primarily of loans and preferred stock that are valued at the lower of cost or fair value. The agricultural investments in the Other Investments Pool consist primarily of farmland investments that are stated at fair value based upon independent appraisals performed periodically. In years when an

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independent appraisal is not performed, the valuation is reviewed by an independent advisor. Because of the inherent uncertainty of valuations, however, these estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and these differences could be material.

With the exception of real estate investment trust holdings, real estate investments are valued quarterly by investment managers based on market conditions and their knowledge of industry trends. Separate account real estate investments are appraised once every three years, in conjunction with the property's purchase anniversary date, by independent appraisers. Real estate investment trust holdings are valued each business day using prices obtained from a pricing service.

Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing exchange rates. Forward currency contracts are valued at the mid-point of representative quoted bid and asked prices.

Income in the short-term fixed income pool is calculated daily and credited monthly to each participant on a pro rata basis.

Income in the domestic fixed income pool, equity pools, high yield pool and the international fixed income pool is credited daily to each participant on a pro rata basis.

Income in the emerging markets, private equity, absolute return, other investments and real estate pool is credited to pool participants monthly on a pro rata basis.

Contributions Receivable

Contributions from plan members and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

Federal Income Tax Status

The Plan is a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

Reclassifications

Certain reclassifications not affecting changes in net assets held in trust for pension and postemployment healthcare benefits have been made to 2005 amounts in order to conform to the 2006 presentation.

(3) Investments

The Alaska Retirement Management Board (ARMB) has statutory oversight of the Plan's investments. As the fiduciary, the ARMB has the statutory authority to invest the assets under the Prudent Investor Rule. Alaska Statute provides that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large investment portfolios.

The Department of Revenue, Treasury Division (Treasury) provides staff for the ARMB. Treasury has created a pooled environment by which it manages the investments the ARMB has fiduciary responsibility for. Actual investing is performed by investment officers in the State's Department of

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Revenue, Treasury Division, or by contracted external investment managers. The ARMB has developed investment guidelines, policies and procedures for Treasury staff and external investment managers to adhere to when managing investments.

Short-Term Fixed Income Pool

The Plan participates in the State's internally managed short–term fixed income pool which was established March 15, 1993, with a start up and maintained share price of $1. Treasury staff determines the allocation between permissible securities. Each member owns shares in the pool, the number of which fluctuates daily with contributions and withdrawals. Member shares also change at the beginning of each month when income is paid. At June 30, 2006 and 2005, the Plan had a 0.02% and 0.03% direct ownership in the short-term fixed income pool which included interest receivable of $21,543 and $8,927 respectively. The Plan had a 9.28% and 3.35% indirect ownership in the short-term fixed income pool at June 30, 2006 and 2005, respectively.

Domestic Fixed Income Pool

The domestic fixed income pool in comprised of an internally managed and an externally managed pool.

Retirement Fixed Income Pool

The Plan participates in the ARMB's internally managed retirement fixed income pool which was established March 1, 1996, with a start up share price of $1,000. The share price at June 30, 2006, was $1,843. Treasury staff determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 68.04% and 67.32% ownership in the retirement fixed income pool, respectively.

External Domestic Fixed Income Pool

The Plan participates in the ARMB's externally managed domestic fixed income pool which was established June 25, 1999, with a start up share price of $1,000. The share price at June 30, 2006, was $1,548. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 67.43% and 66.86% ownership in the external domestic fixed income pool, respectively.

International Fixed Income Pool

The Plan participates in the ARMB's externally managed international fixed income pool which was established March 3, 1997, with a start up share price of $1,000. The share price at June 30, 2006, was $1,791. The manager

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independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 68.29% and 67.81% ownership in the international fixed income pool, respectively.

High Yield Pool

The Plan participates in the ARMB's externally managed high yield fixed income pool which was established April 15, 2005, with a start up share price of $1,000. The share price at June 30, 2006, was $1,072. The manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 68.22% and 68.14% ownership in the high yield pool.

Domestic Equity Pool

The domestic equity pool is comprised of an external large cap domestic equity pool and external small cap domestic equity pool.

Large Cap Domestic Equity Pool

The Plan participates in the ARMB's externally managed large cap domestic equity pool which was established July 1, 2004, with a start up share price of $1,000. The share price at June 30, 2006, was $1,132. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 68.13% and 67.63% ownership in the large cap domestic equity pool.

Small Cap Domestic Equity Pool

The Plan participates in the ARMB's externally managed small cap domestic equity pool which was established July 1, 2004, with a start up share price of $1,000. The share price at June 30, 2006, was $1,173. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 68.14%

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and 67.70% ownership in the small cap domestic equity pool.

International Equity Pool

The Plan participates in the ARMB's externally managed international equity pool which was established January 1, 1992, with a start up share price of $1,000. The share price at June 30, 2006, was $3,364. Each manager independently determines the allocation between permissible securities. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 68.50% and 68.00% ownership in the international equity pool, respectively.

Emerging Markets Equity Pool

The Plan participates in the ARMB's externally managed emerging markets equity pool which was established May 2, 1994, with a start up share price of $1,000. The share price at June 30, 2006, was $2,615. The pool participates in two externally managed commingled investment funds through ownership of equity shares. The commingled funds, comprised of various institutional investors, invest in the securities markets of developing countries. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 65.00% ownership in the emerging markets equity pool.

Private Equity Pool

The Plan participates in the ARMB's externally managed private equity pool which was established April 24, 1998, with a start up share price of $1,000. The share price at June 30, 2006, was $1,719. Underlying assets in the pool are comprised of venture capital, buyouts, restructuring and special situation investments through limited partnership agreements. Each manager independently determines the limited partnerships to invest in. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 68.62% and 68.15% ownership in the private equity pool, respectively.

Absolute Return Pool

The Plan participates in the ARMB's externally managed absolute return pool which was established October 31, 2004, with a start up share price of $1,000. The share price at June 30, 2006, was $1,135. Underlying assets in the pool are comprised of hedge fund limited partnership agreements. Each manager independently determines the limited partnerships to invest in.

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Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 68.21% and 68.15% ownership in the absolute return pool.

Other Investments Pool

The Plan participates in the ARMB's externally managed other investments pool which was established March 18, 2004, with a start up share price of $1,000. The share price at June 30, 2006, was $1,156. Underlying assets in the pool are comprised of a limited partnership interest in an energy related venture capital operating company and two agricultural entities. Each manager independently determines which permissible investments are made. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 68.62% and 68.15% ownership in the other investments pool, respectively.

Real Estate Pool

The Plan participates in the ARMB's externally managed real estate pool which was established June 27, 1997, with a start up share price of $1,000. The share price at June 30, 2006, was $2,483. Underlying assets in the pool are comprised of separate accounts, commingled accounts, limited partnerships, and real estate investment trust holdings. With the exception of investments in real estate investment trusts, each manager independently determines which permissible investments are made. Treasury staff determines the permissible real estate investment trusts to invest in. Ownership in the pool is based on the number of shares held by each member. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of shares of the pool outstanding on the valuation date. Contributions to and withdrawals from the pool are based on the beginning of the day net asset value per share on the day of the transaction. At June 30, 2006 and 2005, the Plan had a 68.17% and 67.70% ownership in the real estate pool, respectively.

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At June 30, 2006, the Plan's investments included the following:

	Fair Value (In thousands)					
	Fixed Income Pools					
	Short-term	Domestic	International	High yield	Other	Total
Deposits	$ -	-	-	-	3,425	3,425
Overnight Sweep Account	425	734	-	12,431	-	13,590
Money Market Fund	-	-	-	-	929,519	929,519
Short-term Investment Fund	10,472	-	1,188	-	21,597	33,257
Commercial Paper	21,002	6,800	-	-	-	27,802
U.S. Treasury Notes	-	111,417	-	-	-	111,417
U.S. Treasury Bonds	-	119,347	-	-	-	119,347
U.S. Treasury Strips	-	11,488	-	-	-	11,488
U.S. Government Agency						
Discount Notes	-	96,151	-	-	-	96,151
U.S. Government Agency	-	175,690	-	-	-	175,690
Municipal Bonds	-	1,415	-	-	-	1,415
Foreign Government Bonds	-	-	111,744	-	-	111,744
Mortgage-backed	18,079	961,003	-	-	-	979,082
Other Asset-backed	125,717	118,192	-	250	-	244,159
Corporate Bonds	65,044	419,280	76,247	125,017	-	685,588
Convertible Bonds	-	-	-	2,720	-	2,720
Yankees:						
Government	-	15,603	-	-	-	15,603
Corporate	2,669	1,360	-	4,662	-	8,691
Fixed Income Pools:						
Equity	-	-	-	38	-	38
Domestic Equity Pool:						
Limited Partnership	-	-	-	-	200,597	200,597
Equity	-	-	-	-	3,339,373	3,339,373
International Equity Pool:						
Equity	-	-	-	-	1,404,660	1,404,660
Emerging Markets Equity Pool	-	-	-	-	180,324	180,324
Private Equity Pool:						
Limited Partnerships	-	-	-	-	565,343	565,343
Absolute Return Pool:						
Limited Partnerships	-	-	-	-	239,130	239,130
Other Investments Pool:						
Limited Partnerships	-	-	-	-	27,598	27,598
Agricultural Holdings	-	-	-	-	43,436	43,436
Real Estate Pool:						
Real Estate	-	-	-	-	533,531	533,531
Commingled Funds	-	-	-	-	190,943	190,943
Limited Partnerships	-	-	-	-	147,192	147,192
Real Estate Investment Trusts	-	-	-	-	68,333	68,333
Mortgages	-	-	-	-	2	2
Net Other Assets (Liabilities)	(137)	(222,472)	7,148	1,178	5,280	(209,003)
Ownership by Other Pools	(242,711)	210,049	-	-	32,662	-
Total	**$ 560**	**2,026,057**	**196,327**	**146,296**	**7,932,945**	**10,302,185**

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	Fair Value (In thousands)					
	Fixed Income Pools					
	Short-term	**Domestic**	**International**	**High yield**	**Other**	**Total**
Deposits	$ -	-	6,587	-	3,052	9,639
Overnight Sweep Account	88	935	-	37,348	-	38,371
Money Market Fund	-	-	-	-	659,801	659,801
Short-term Investment Fund	-	-	2,220	-	22,460	24,680
Commercial Paper	4,920	9,216	-	-	-	14,136
U.S. Treasury Bills	3,852	-	-	-	-	3,852
U.S. Treasury Notes	3,346	101,314	-	-	-	104,660
U.S. Treasury Bonds	-	123,573	-	-	-	123,573
U.S. Treasury Strips	-	25,160	-	-	-	25,160
U.S. Government Agency						
Discount Notes	851	7,245	-	-	-	8,096
U.S. Government Agency	-	125,170	-	-	-	125,170
Municipal Bonds	-	969	-	-	-	969
Foreign Government Bonds	-	-	212,977	-	-	212,977
Mortgage-backed	9,721	917,260	-	-	-	926,981
Other Asset-backed	27,264	112,094	-	272	-	139,630
Corporate Bonds	12,365	429,452	99,155	94,720	-	635,692
Convertible Bonds	-	-	-	1,445	-	1,445
Yankees:						
Government	-	9,502	-	-	-	9,502
Corporate	474	6,915	-	2,917	-	10,306
Domestic Equity Pool:						
Limited Partnership	-	-	-	-	177,777	177,777
Equity	-	-	-	-	3,074,626	3,074,626
International Equity Pool:						
Convertible Bonds	-	-	-	-	313	313
Equity	-	-	-	-	1,311,369	1,311,369
Emerging Markets Equity Pool	-	-	-	-	134,076	134,076
Private Equity Pool:						
Limited Partnerships	-	-	-	-	379,843	379,843
Absolute Return Pool:						
Limited Partnerships	-	-	-	-	210,613	210,613
Other Investments Pool:						
Limited Partnerships	-	-	-	-	15,097	15,097
Agricultural Holdings	-	-	-	-	16,666	16,666
Real Estate Pool:						
Real Estate	-	-	-	-	473,584	473,584
Commingled Funds	-	-	-	-	172,117	172,117
Limited Partnerships	-	-	-	-	104,288	104,288
Real Estate Investment Trusts	-	-	-	-	76,249	76,249
Mortgages	-	-	-	-	10	10
Net Other Assets (Liabilities)	637	16,443	(1,638)	1,742	7,889	25,073
Ownership by Other Pools	(62,864)	25,127	-	-	37,737	-
Total	**$ 654**	**1,910,375**	**319,301**	**138,444**	**6,877,567**	**9,246,341**

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Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Short-Term Fixed Income Pool

As a means of limiting its exposure to fair value losses arising from increasing interest rates, Treasury's investment policy limits individual fixed rate securities to fourteen months in maturity or fourteen months expected average life. Floating rate securities are limited to three years in maturity or three years expected average life. Treasury utilizes the actual maturity date for commercial paper and twelve-month prepay speeds for other securities. At June 30, 2006, the expected average life of individual fixed rate securities ranged from three days to seven months and the expected average life of floating rate securities ranged from less than one year to three years.

Other Fixed Income Pools

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the domestic fixed-income portfolio to ± 20% of the Lehman Brothers Aggregate Bond Index. The effective duration for the Lehman Brothers Aggregate Bond Index at June 30, 2006, was 4.80 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the international fixed-income portfolio to ± 25% of the Citigroup Non-U.S. World Government Bond Index. The effective duration for the Citigroup Non-U.S. World Government Bond Index at June 30, 2006, was 6.08 years.

Through the ARMB's investment policy, Treasury manages the exposure to fair value losses arising from increasing interest rates by limiting the effective duration of the high yield portfolio to ± 20% of the Merrill Lynch U.S. High Yield Master II Index. The effective duration for the Merrill Lynch U.S. High Yield Master II Index at June 30, 2006, was 4.59 years. The high yield pool was funded April 15, 2005. Investment managers were in the transition period at year end working towards fully investing allocated funds. Funds not invested at year end have no duration causing the pool's duration to be lower than the policy limit.

Duration is a measure of interest rate risk. It measures a security's sensitivity to a 100-basis point change in interest rates. The duration of a pool is the average fair value weighted duration of each security in the pool taking into account all related cash flows.

Treasury uses industry-standard analytical software developed by The Yield Book Inc. to calculate effective duration. The software takes into account various possible future interest rates, historical and estimated prepayment rates, options and other variable cash flows for purposes of the effective duration calculation.

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At June 30, 2006, the effective duration of the fixed income pools, by investment type, was as follows:

	Effective duration (In years)		
	Domestic	**International**	**High yield**
U.S. Treasury Notes	2.65	-	-
U.S. Treasury Bonds	9.73	-	-
U.S. Treasury Strips	20.17	-	-
U.S. Government Agency	3.61	-	-
Municipal Bonds	11.98	-	-
Foreign Government Bonds	-	6.41	-
Mortgage-Backed	3.57	-	-
Other Asset-Backed	1.78	-	4.73
Corporate Bonds	5.21	4.12	3.76
Convertible Bonds	-	-	2.40
Yankees:			
Government	9.67	-	-
Corporate	2.18	-	4.43
Portfolio effective duration	3.83	5.45	3.43

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Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations.

Treasury's investment policy has the following limitations with regard to credit risk:

With the exception of the sweep account, short-term fixed income pool investments are limited to instruments with a long-term credit rating of at least A3 or equivalent and instruments with a short-term credit rating of at least A1 or equivalent. For securities with long-term credit ratings, they may be purchased if the median rating of Standard & Poor's Corporation, Moody's and Fitch is A3 or equivalent. Asset-backed and nonagency mortgage securities may be purchased if only rated by one of the rating agencies mentioned above if they are rated AAA. Unexpected daily cash surpluses that arise in this pool are invested overnight in the custodian's repurchase agreement sweep account. Treasury does not have a policy to limit credit risk associated with the sweep account.

The Plan is subject to limited credit risk associated with securities lending transactions since the ARMB is indemnified by State Street Corporation (the Bank) against any loss resulting from counterparty failure or default on a loaned security or its related income distributions. The Bank further indemnifies the ARMB against loss due to borrower rebates in excess of earnings on cash collateral. Indemnifications are subject to limitations relating to war, civil unrest or revolution, or beyond the reasonable control of the Bank.

The ARMB's investment policy has the following limitations with regard to credit risk:

Domestic fixed-income:

Commercial paper must carry a rating of at least A1 or equivalent;

Corporate debt securities must be investment grade;

Corporate, asset-backed and non-agency mortgage securities must be investment grade. Investment grade is defined as the median rating of Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and nonagency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

International fixed-income:

Corporate debt and asset-backed securities must be investment grade.

Domestic and international equity:

Corporate debt obligations must carry a rating of at least A or equivalent.

High yield:

No more than 10% of the portfolio's assets may be invested in securities rated A3 or higher.

No more than 25% of the portfolio's assets may be invested in securities rated below B3.

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No more than 5% of the portfolio's assets may be invested in unrated securities.

The lower of any Standard & Poor's Corporation, Moody's or Fitch rating will be used for limits on securities rated below B3 and the higher rating will be used for limits on securities rated A3 or higher.

Daily cash surpluses that arise in this pool are invested in the custodian's repurchase agreement sweep account. This account is secured by U.S. Government or Agency securities. As such, the ARMB does not consider this investment subject to the credit risk limitations above.

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At June 30, 2006, the Plan's investments consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows (using Standard & Poor's Corporation rating scale):

		Fixed Income Pool			
	Rating[1]	Short-term	Domestic	International	High Yield
Overnight Sweep Account	Not Rated	-%	-%	-%	8%
Short-term Investment Account	Not Rated	5	-	-	-
Commercial Paper	A-1	9	-	-	-
U.S. Government Agency Discount Notes	Not Rated	-	5	-	-
U.S. Government Agency	Not Rated	-	10	-	-
Foreign Government	AAA	-	-	51	-
Foreign Government	AA	-	-	3	-
Foreign Government	A	-	-	3	-
Mortgage-backed	AAA	-	42	-	-
Mortgage-backed (Agency)	Not Rated	8	11	-	-
Other Asset-backed	AAA	48	6	-	-
Other Asset-backed	AA	-	1	-	-
Corporate Bonds	AAA	2	1	26	-
Corporate Bonds	AA	16	4	13	-
Corporate Bonds	A	9	10	-	1
Corporate Bonds	BBB	-	8	-	1
Corporate Bonds	BB	-	-	-	18
Corporate Bonds	B	-	-	-	53
Corporate Bonds	CCC	-	-	-	12
Corporate Bonds	D	-	-	-	1
Convertible Bonds	B	-	-	-	2
Yankees:					
Government	AAA - BBB	-	1	-	-
Corporate	AA	1	-	-	-
Corporate	B	-	-	-	3
No credit exposure		2	1	4	1
		100%	100%	100%	100%

[1]Rating modifiers are not disclosed.

Securities lending collateral was invested in a registered 2(a)-7 money market fund that was not rated.

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Custodial Credit Risk - Deposits

Custodial credit risk is the risk that deposits may not be returned in the event of a bank failure. The ARMB does not have a policy in relation to custodial credit risk for deposits. At June 30, 2006, the Plan had the following uncollateralized and uninsured deposits:

	Amount (In thousands)
International equity pool	**$ 3,356**

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment.

The ARMB's policy with regard to foreign currency risk in the international fixed income pool is to restrict obligations to those issued in the currencies of countries represented in the Citibank Non-U.S. World Government Bond Index. In addition, the ARMB's asset allocation policy permits the Plan to hold up to 4% of total investments in international fixed-income.

The ARMB's policy with regard to foreign currency risk in the international equity pool and the emerging markets pool is to permit the Plan to hold up to 18% of total investments in these two pools combined.

The ARMB's policy with regard to foreign currency risk in the private equity pool is to permit the Plan to hold up to 10% of total investments in private equity.

At June 30, 2006, the Plan had exposure to foreign currency risk with the following international equity pool deposits:

Currency	Amounts (in thousands)
Canadian Dollar	$ 3
Euro Currency	1,261
Hong Kong Dollar	45
Japanese Yen	1,675
New Zealand Dollar	3
Norwegian Krone	138
Pound Sterling	345
Singapore Dollar	17
Swedish Krona	122
Swiss Franc	36
	$ 3,645

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At June 30, 2006, the Plan had exposure to foreign currency risk with the following investments:

	Amount (In thousands)			
	International fixed income pool		International equity pool	Private equity pool
Currency	Foreign government	Corporate	Equity	Limited partnerships
Australian Dollar	$ 11,765	-	25,555	-
Canadian Dollar	-	-	28,389	-
Danish Krone	-	-	1,038	-
Euro Currency	88,695	-	514,356	36,780
Hong Kong Dollar	-	-	14,638	-
Hungarian Forint	-	-	2,703	-
Japanese Yen	5,979	76,247	289,393	-
New Taiwan Dollar	-	-	3,135	-
New Zealand Dollar	-	-	2,173	-
Norwegian Krone	-	-	16,506	-
Polish Zloty	5,304	-	-	-
Pound Sterling	-	-	238,640	6,430
Singapore Dollar	-	-	12,076	-
South African Rand	-	-	7,243	-
South Korean Won	-	-	14,967	-
Swedish Krona	168,044	-	20,881	-
Swiss Franc	-	-	94,723	-
	$279,787	**76,247**	**1,286,416**	**43,210**

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At June 30, 2006, the Plan also had exposure to foreign currency risk in the emerging markets equity pool. This pool represents an investment in commingled investment funds; therefore, no disclosure of specific currencies is made.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Treasury's policy with regard to concentration of credit risk for the short-term fixed income pool is to prohibit the purchase of more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group.

The ARMB's policy with regard to concentration of credit risk for the domestic fixed income, international fixed income and high yield pools is to prohibit the purchase of more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group.

At June 30, 2006, the Plan had $756 million in Federal National Mortgage Association securities which represented 8% of the Plan's total investments. Federal National Mortgage Association securities are not classified as corporate bonds.

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The Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value during the ended year June 30 as follows (in thousands):

	2006	2005
Domestic equity pool	$253,306	94,882
Domestic fixed income pool	(98,600)	45,707
International equity pool	319,293	139,368
Real estate pool	103,690	76,173
International fixed income pool	(12,328)	17,143
Private equity pool	99,185	44,189
Emerging markets equity pool	20,300	33,965
Absolute return pool	25,794	6,504
High yield pool	(3,687)	599
Other investments pool	1,735	586
	$708,688	**459,116**

(4) Foreign Exchange, Foreign Exchange Contracts and Off-Balance Sheet Risk

The international fixed income and international equity pool's investment income includes the following at June 30:

	2006	2005
Net realized gain on foreign currency	$21,661,967	122,903,509
Net unrealized loss on foreign currency	(26,077)	(26,827)
Net realized gain (loss) on foreign exchange contracts	252,345	(217,279)

The international equity pool includes foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions. The maturity periods for these contracts range from eight to one hundred and twenty-four days. The Plan had net unrealized gains (losses) with respect to such contracts, calculated using forward rates at June 30, as follows:

	2006	2005
Net contract sales	$2,976,479	6,587,214
Less fair value	2,984,540	6,302,248
Net unrealized gains (losses)	**$ (8,061)**	**284,966**

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The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. Credit risk exposure exists to the extent of nonperformance by these counterparties; however, the risk of default is considered to be remote. The market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

(5) Securities Lending

Alaska Statute 37.10.071 authorizes the ARMB to lend assets, under an agreement and for a fee, against deposited collateral of equivalent fair value. The ARMB has entered into an agreement with the Bank to lend equity and domestic fixed-income securities. The Bank, acting as the ARMB's agent under the agreement, transfers securities to broker agents or other entities for collateral in the form of cash or securities and simultaneously agrees to return the collateral for the same securities in the future.

At June 30, 2006 and 2005, the fair value of securities on loan allocable to the Plan's invested assets totaled $915,963,861 and $642,524,010, respectively. There is no limit to the amount that can be loaned and the ARMB is able to sell securities on loan. International equity security loans are collateralized at not less than 105% of their fair value. All other security loans are collateralized at not less than 102% of their fair value. Loaned securities and collateral is marked to market daily and collateral is received or delivered the following day to maintain collateral levels.

Cash collateral in the amount of $929,519,157 is invested in a registered 2(a)-7 money market fund which is valued at amortized cost approximating fair value. Maturities of investments in the money market fund generally did not match the maturities of the loaned securities because the lending agreements are terminable at will. Securities collateral in the amount of $3,972,138 may be pledged or sold upon borrower default. Since the ARMB does not have the ability to pledge or sell securities collateral unless the borrower defaults, they are not recorded on the financial statements. Securities on loan, cash collateral and cash collateral payable are recorded on the financial statements. The bank, the Plan and the borrower receive a fee from earnings on invested collateral. The bank and the Plan share a fee paid by the borrower for loans not collateralized with cash.

For the years ended June 30, 2006 and 2005, there were no losses incurred as a result of securities lending transactions and there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities.

(6) Transfer from Retirement Systems

During fiscal year 2006, a review was conducted of all medical reserve amounts in the Retiree Health Fund. An analysis was conducted which considered: (1) the medical portion of net assets held in trust for benefits and other purposes, (2) prior and current year amounts incurred but not paid, (3) the amount necessary for the contingency reserve, and (4) the amount necessary for a premium stabilization reserve. The result was excess reserve

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balances over those deemed necessary for the continued operation of the Retiree Health Fund. The excess amount was allocated to plans participating in the Retiree Health Fund. Such an analysis is conducted periodically to determine that reserves are adequate, but not excessive.

Based on this review, the Plan received $34,635,000 in fiscal year 2006 from the Retiree Health Fund.

(7) Commitments and Contingencies

Commitments

The ARMB entered into an agreement through an external investment manager to provide capital funding for a domestic equity limited partnership. At June 30, 2006, the Plan's member share of the unfunded commitment totaled $69,729,977. This commitment can be withdrawn annually in December with ninety days notice.

The ARMB entered into agreements through external investment managers to provide capital funding for limited partnerships as it continues to build the private equity portfolio. At June 30, 2006, the Plan's member share of these unfunded commitments totaled $507,540,902. These commitments are estimated to be paid within ten years from agreement date.

The ARMB entered into an agreement through an external investment manager to provide capital funding for a limited partnership as it continues to build the other investment portfolio. At June 30, 2006, the Plan's member share of this unfunded commitment totaled $23,056,852 to be paid through the year 2007.

The ARMB entered into agreements through external investment managers to provide capital funding for real estate investments as it continues to build the real estate portfolio. At June 30, 2006, the Plan's member share of these unfunded commitments totaled $228,703,629 to be paid through the year 2010.

Contingencies

The State was a defendant in a lawsuit filed by the Alaska Civil Liberties Union (ACLU) and a number of same-sex couples with regards to the statutes limiting members and retiree healthcare coverage and certain survivor benefits to members and retirees and their spouses and dependents, thus excluding coverage for domestic partners of members and retirees. An adverse ruling against the State was issued by the Alaska Supreme Court on October 28, 2005, holding that "the spousal limitations are unconstitutional as applied to public members with same-sex domestic partners." Briefing on the remedy was completed in January 2006 with both the State and ACLU suggesting giving the legislature time to act to amend statutes relevant to the case. The legislature did not enact legislation to implement benefits for affected members and retirees. On June 1, 2006, the Alaska Supreme Court issued its remedy order requiring the state to provide benefits complying with the court's opinion by no later than January 1, 2007. The case has been remanded to the superior court, with directions that the court issue whatever orders it deems necessary to ensure compliance with the January 2007 deadline. The Alaska Supreme Court order states that the Plan's current benefit program will remain in effect until the Plan begins providing benefits. The potential effect of this ruling cannot be reasonably estimated until the Plan

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begins providing benefits. As such, the Plan has not recorded the financial impact of this ruling. The costs associated with this ruling will be passed through to employers through the normal contribution development process.

Approximately 50 Plan members have filed administrative challenges to the Plan administrator's refusal to include leave cash-in payments in the compensation used to calculate the members' retirement benefits. The members were all first hired by Plan employers before July 1, 1977, and claim that they have a constitutional right, based on the Plan statutes in effect before that date, to have leave cash-in payments included. The Plan board, which hears appeals from decisions of the Plan administrator, has ruled on two of the appeals, and those rulings have in turn been appealed to the Alaska Superior Court. The remaining appeals have been stayed by the Plan board. In addition, a class action lawsuit, raising the same issues, has been filed in the superior court, but has been put on hold until final resolution of the members' claim. On January 27, 2006, the Alaska Supreme Court decided one such member's case in the state's favor. The administrator intends to vigorously contest all of the remaining claims and believes that the state's success to date will result in dismissal of the remaining cases and pending claims. The Plan has not recorded an accrual related to any of these cases or pending claims, because an unfavorable outcome in these matters is, in management's opinion, not considered probable but rather only possible, and the potential loss, if any, cannot be reasonably estimated at this time. If an unfavorable outcome occurs, the costs would be passed through to employers through the normal contribution process.

The State is a defendant in a class action lawsuit involving a constitutional challenge to Plan statutes that provide a 10% cost of living adjustment (COLA) to retirees and other benefit recipients who reside in the state of Alaska. The plaintiffs claim that these statutes violate the right to travel of nonresident benefit recipients, and therefore, the 10% COLA should be paid to all benefit recipients, regardless of residence. On summary judgment motions, the superior court first ruled in favor of the plaintiffs on the issue of whether, if the residency requirements are unconstitutional, the residency requirements are severable from the COLA statutes. On summary judgment motions addressing the constitutionality of the statutes, the superior court ruled against the state, holding that the COLA statutes violate the constitutional right to travel. The court ordered payment of COLA to retirees and survivors in high-cost areas of other states. The State has appealed to the Alaska Supreme Court. The superior court ruled against the plaintiffs on the issue of past damages, and has cross-appealed to the Alaska Supreme Court. Briefing and oral arguments have been completed. The State is vigorously litigating the appeals but realize that an unfavorable outcome is reasonably possible. The Plan has not recorded an accrual related to this class action lawsuit because the potential loss cannot be reasonably estimated at this time. Costs associated with the loss of this class action lawsuit will be passed through to employers through the normal contribution development process.

(8) Subsequent Event

During the fiscal year 2005 legislative session, a law was enacted that closes the Plan. Senate Bill 141, signed into law on July 27, 2005 and

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effective July 1, 2006, closes the Plan to new members and creates a defined contribution plan for members first hired on or after July 1, 2006.

Regulation 2 AAC 35.900, Maximum Employer Contribution Rate Changes, that prohibits the ARMB from increasing or decreasing employer contribution rates by more than five percentage points over the rate adopted in the prior year was repealed on July 20, 2006.

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Required Supplementary Information

Schedule of Funding Progress
Pension Benefits

June 30, 2006
(Dollars in thousands)

Actuarial Valuation Date as of June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liabilities (AAL)	Funded Excess (FE) (Unfunded actuarial accrued liabilities) (UAAL)	Funded Ratio	Covered Payroll	FE/(UAAL) as a Percentage of Covered Payroll
2000	$5,245,612	5,190,835	54,777	101.1%	1,321,480	4.1%
2001	5,579,440	5,528,026	51,414	100.9	1,208,700	4.3
2002	4,611,170	6,133,182	(1,522,012)	75.2	1,245,054	(122.2)
2003	4,607,673	6,330,541	(1,722,868)	72.8	1,300,041	(132.5)
2004	4,708,592	6,711,507	(2,001,915)	70.2	1,305,670	(153.3)
2005	4,658,413	7,087,191	(2,428,778)	65.7	1,404,043	(173.0)

See accompanying notes to required supplementary information and independent auditors' report.

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Schedule of Funding Progress
Postemployment Healthcare Benefits

June 30, 2006
(Dollars in thousands)

Actuarial Valuation Date as of June 30	Actuarial Value of Plan Assets	Actuarial Accrued Liabilities (AAL)	Funding Excess (FE) (Unfunded Actuarial Accrued Liabilities) (UAAL)	Funded Ratio	Covered Payroll	FE/(UAAL) as a Percentage of Covered Payroll
2000	$2,209,146	2,186,077	23,069	101.1%	1,321,480	1.7%
2001	2,362,316	2,340,548	21,768	100.9	1,208,700	1.8
2002	2,801,663	3,726,409	(924,746)	75.2	1,245,054	(74.3)
2003	3,079,608	4,231,112	(1,151,504)	72.8	1,300,041	(88.6)
2005	3,320,822	4,732,409	(1,411,587)	70.2	1,305,670	(108.1)
2006	3,784,506	5,757,650	(1,973,144)	65.7	1,404,043	(140.5)

See accompanying notes to required supplementary information and independent auditors' report.

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Required Supplementary Information

Schedule of Contributions from Employers and the State of Alaska Pension and Postemployment Healthcare Benefits

June 30, 2006
(Dollars in thousands)

Year Ended June 30	Actuarial Valuation Date as of June 30[1]	Annual Required Contribution			Pension Percentage Contributed		Post-employment Healthcare Percentage Contributed		Total Percentage Contributed (note 3)
		Pension	Post-employment Healthcare	Total	by Employer (note 3)	by State of Alaska (note 3)	by Employer (note 3)	by State of Alaska (note 3)	
2001	1998	$ 65,151	26,477	91,628	105.3%	-%	105.3%	-%	105.3%
2002	1999	65,485	26,613	92,098	102.9	-	102.9	-	102.9
2003	2000	63,283	26,651	89,934	110.3	-	110.3	-	110.3
2004	2001	74,178	31,407	105,585	100.0	-	100.0	-	100.0
2005	2002	234,361	142,393	376,754	47.3	-	47.3	-	47.3
2006	2003	249,488	166,749	416,237	61.0	4.4	61.0	4.4	65.4

(1) Actuarial valuation related to annual required contribution for fiscal year.

See accompanying notes to required supplementary information and independent auditors' report.

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June 30, 2006

(1) Description of Schedule of Funding Progress

Each time a new benefit is added which applies to service already rendered, an "unfunded actuarial accrued liability" is created. Laws governing the Plan require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to the unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded actuarial accrued liabilities increasing in dollar amounts, all at a time when the actual value of these items, in real terms, may be decreasing.

(2) Actuarial Assumptions and Methods

The actuarial valuation was prepared by Buck Consultants. The significant actuarial assumptions used in the valuations as of June 30, 2005, are as follows:

(a) Actuarial cost method – projected unit credit, unfunded actuarial accrued liability is amortized over a twenty-five year fixed period level percentage of pay.

(b) Mortality basis – 1994 Group Annuity Mortality Basic Table for males and females, 1994 base year. Deaths are assumed to be occupational 85% of the time for peace officer and firefighter members, 35% of the time for general members.

(c) Retirement – retirement rates based on the 1997-1999 actual experience.

(d) Investment return – 8.25% per year, compounded annually, net of deductions.

(e) Health cost trend –

Fiscal year	Medical	Prescription
2006	9.5%	14.0%
2007	9.0	13.0
2008	8.5	12.0
2009	8.0	11.0
2010	7.5	10.0
2011	7.0	9.0
2012	6.5	8.0
2013	6.0	7.0
2014	5.5	6.0
2015	5.0	5.0
2016 and later	5.0	5.0

(f) Salary scale – inflation 3.5%, productivity and merit (first five years) for peace officer and firefighter members, 1.0% and 1.5%, respectively, and for all general members, productivity and merit (first ten years) 0.5% and 1.5%, respectively.

(g) Total inflation – total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 3.5% annually.

(h) Cost of living allowance (domicile in Alaska) – 68% of those benefit recipients who are eligible for the allowance are assumed to remain in Alaska and receive the allowance.

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Notes to Required Supplementary Information

June 30, 2006

(i) Contribution refunds – 100% of those terminating after age thirty-five who are vested will leave their contributions in the Plan and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

(j) Disability – incidence rates based upon the 1991-1995 actual experience of the Plan. Post-disability mortality in accordance with rates published by the Pension Benefit Guaranty Corporation to reflect mortality of those receiving disability benefits under Social Security.

(k) Asset valuation method – recognize 20% of the investment gains and losses in each of the current and preceding four years and phased in over the next five years. All assets are valued at fair value. Valuation assets cannot be outside a range of 80% to 120% of the market value of assets.

(l) Valuation of medical benefits for retirees – a pre-age sixty-five cost and lower postage sixty-five cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health cost inflation assumption.

(m) Spouse's age – wives are assumed to be four years younger than husbands.

(n) Dependent children – benefits to dependent children have been valued assuming members who are not single have one dependent child.

(o) Postretirement pension adjustment – 50% and 75% of assumed inflation is valued for the automatic Post Retirement Pension Adjustment (PRPA) as specified by statute.

(p) Expenses – expenses are covered in the investment return assumption.

(q) Total turnover – based upon the 1997-1999 actual withdrawal experience.

(r) Part-time status – part-time members are assumed to earn 0.600 years of credited service per year.

The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

All significant accounting policies, benefit provisions, and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

Effective June 30, 2000, the following changes were made:

- The mortality basis was changed from the 1984 Unisex Pension Mortality Table to the 1994 Group Annuity Mortality Basic Table, 1994 base year.

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Notes to Required Supplementary Information

June 30, 2006

- The turnover assumptions were revised based on actual withdrawal experience in 1997-1999.

- The retirement age assumptions were revised based on actual experience in 1997-1999.

- The health cost trend assumptions were changed for fiscal years 2009 and later from an ultimate rate of 4.5% for fiscal years 2009-2013 and 4% for all subsequent fiscal years.

- The salary scale assumptions were changed. The inflation assumption was changed to 3.5% from 4%, the productivity and merit (first five years) assumptions of 0.5% and 1%, respectively, were broken out for peace officer/firefighter members and other members. Productivity and merit (first five years) for peace officer/firefighter members and other members were set at 1% and 1.5%, and 0.5% and 1.5%, respectively.

- The total inflation assumption was changed from 4% to 3.5%.

- The cost of living allowance was decreased from 71% to 68%.

- Disabilities are no longer assumed to be occupational 85% of the time for peace officer and firefighter members and 35% for other members.

- The percentage used to reduce the actuarial value of assets in the target unfunded (surplus) accrued liability calculation was increased to 2.343757% from 2.296%.

- For the June 30, 2000 actuarial valuation, data as of June 30, 1999 was projected one year using standard actuarial techniques. The active population count was assumed to increase by 1.72% (quadratic extrapolation over the most recent 3 valuation dates). Actual CPI data was used to estimate new PRPA benefits for members retired as of June 30, 1999.

Effective June 30, 2001, the following changes were made:

- The percentage used to reduce the actuarial value of assets in the target unfunded (surplus) accrued liability calculation was increased to 3.381643% from 2.343757%.

Effective June 30, 2002, the following changes were made:

- The target-funding ratio was changed from 102% to 100%.

- The actuarial cost method was changed from a rolling twenty-five year period to a twenty-five year fixed period level percentage of pay.

- The salary scale assumptions were changed. Productivity rates (first five years) for peace officer/firefighter members were set at 1.0% from 0.5%.

- Part-time members are assumed to earn 0.600 years of credited service per year.

- The health cost trend assumptions were changed for fiscal years 2003 and later from an ultimate rate of 12.0% for fiscal years

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Notes to Required Supplementary Information

June 30, 2006

2003-2005 decreasing in yearly 0.5% increments to 5.0% beginning in 2017 and all subsequent fiscal years.

- The asset valuation method was changed to recognize 20% of the investment gains and losses in each of the current and preceding four years and will be phased in over the next five years.

Schedule 1

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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Schedule of Administrative and Investment Deductions

Year Ended June 30, 2006
with Summarized Financial Information for 2005
(In thousands)

			Totals	
	Administrative	**Investment**	**2006**	**2005**
Personal Services:				
Wages	$ 2,127	800	2,927	3,066
Benefits	1,171	329	1,500	1,265
Total Personal Services	3,298	1,129	4,427	4,331
Travel:				
Transportation	29	92	121	133
Per Diem	5	10	15	22
Moving	-	-	-	21
Honorarium	-	8	8	32
Total Travel	34	110	144	208
Contractual Services:				
Management and Consulting	619	19,885	20,504	16,390
Accounting and Auditing	29	917	946	843
Data Processing	465	279	744	555
Communications	136	36	172	151
Advertising and Printing	89	11	100	135
Rentals/Leases	178	24	202	197
Legal	441	52	493	413
Medical Specialists	12	-	12	75
Repairs and Maintenance	40	25	65	14
Transportation	2	4	6	4
Securities Lending	-	31,560	31,560	13,221
Other Services	218	37	255	150
Total Contractual Services	2,229	52,830	55,059	32,148
Other:				
Equipment	157	6	163	71
Supplies	83	23	106	97
Total Other	240	29	269	168
Total Administrative and Investment Deductions	**$ 5,801**	**54,098**	**59,899**	**36,855**

See accompanying independent auditors' report.

Schedule 2

STATE OF ALASKA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Schedule of Payments to Consultants Other than Investment Advisors

Years ended June 30, 2006 and 2005
(In thousands)

Firm	Services	2006	2005
State Street Corporation	Custodian Banking Services	$ 1,319	991
Deloitte and Touche LLP	Benefits Consultation	24	46
Buck Consultant LLP	Actuarial Services	256	-
Mercer Human Resource Consulting	Actuarial Services	190	339
Systems Central Services, Inc.	Data Processing Consultants	237	241
Wostmann & Associates	Data Processing Consultants	130	-
State of Alaska, Department of Law	Legal Services	307	284
Mikunda, Cottrell & Co., Inc.	Board Elections	-	55
First National Bank Alaska	Banking Services	20	27
KPMG LLP	Auditing Services	21	48
		$ 2,504	2,031

See accompanying independent auditors' report.